MFOLOZI

MUNICIPALITY
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Mfolozi Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Mayoral committee	
Executive Mayor	SW Mgenge
Councillors	ME Ntshangase
	ZD Mfusi
	FPE Mpungose
	BT Mnqayi
	FM Thusi
	SK Ngema
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	C Ngema
Accounting Officer	Mrs M LUBBE
Registered office	25 Bredelia Street Kwambonambi KZN 3915
Postal address	P.O Box 96 Mbonami 3915
Bankers	ABSA Bank
Auditors	Auditor-General
Telephone	(035) 580-1421
Fax number	(035) 580-1141
E-mail Address (Accounting Officer)	Lubbea@mbonambi.co.za

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Equitable Share for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Provincial Treasury has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 31, which have been prepared on the going concern basis, were approved by the on 31 August 2012 and were signed on its behalf by:

Mrs M LUBBE
Municipal Manager (Acting)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Statement of Financial Position

Figures in Rand	Notes	2012	2011
Assets			
Current Assets			
Trade and other receivables	5	1 968 661	2 413 699
VAT receivable	6	978 058	1 158 068
Cash and cash equivalents	7	17 573	15 726
Total Current Assets		**2 964 292**	**3 587 493**
Non-Current Assets			
Property, plant and equipment	2	74 597 284	57 756 592
Intangible assets	3	104 489	104 488
		74 701 773	**57 861 080**
Total Assets		**77 666 065**	**61 448 573**
Liabilities			
Current Liabilities			
Trade and other payables	9	25 910 493	23 069 933
Unspent conditional grants	8	3 249 490	4 735 482
Payments received in advance		(541 691)	645 673
Bank overdraft	7	-	209 905
Total Current Liabilities		**28 618 292**	**28 660 993**
Total Liabilities		**28 618 292**	**28 660 993**
Net Assets		**49 047 773**	**32 787 580**
Net Assets			
Accumulated surplus		49 047 773	32 787 580

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue	10	66 645 057	63 575 323
Other income		328 429	561 089
Operating expenses		(48 195 713)	(57 147 880)
Operating surplus		**18 777 773**	**6 988 532**
Investment revenue	16	416 561	191 601
Finance costs		(467 181)	(1 041 809)
Surplus for the year		**18 727 153**	**6 138 324**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**26 649 256**	**26 649 256**
Changes in net assets		
Surplus for the year	6 138 324	6 138 324
Balance at 01 July 2011	**32 787 583**	**32 787 583**
Changes in net assets		
Prior year adjustments-fundamental	27 281	27 281
Net income (losses) recognised directly in net assets	27 281	27 281
Surplus for the year	18 727 153	18 727 153
Total recognised income and expenses for the year	18 754 434	18 754 434
Other movements	(2 494 244)	(2 494 244)
Balance at 30 June 2012	**49 047 773**	**49 047 773**

Note(s)

Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		5 428 088	386 418
Grants		60 400 292	59 983 145
Interest income		416 561	191 601
Other receipts		595 757	665 503
Total receipts		66 840 698	61 226 667
Payments			
Employee costs		(16 114 241)	(19 824 913)
Suppliers		(28 081 895)	(26 079 382)
Finance costs		(467 181)	(1 041 809)
Other payments		-	3
Total payments		(44 663 317)	(46 946 101)
Net cash flows from operating activities	18	**22 177 381**	**14 280 566**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(18 311 300)	(15 203 222)
Proceeds from sale of property, plant and equipment	2	(2)	-
Purchase of other intangible assets	3	(1)	(210 206)
Proceeds from sale of other intangible assets	3	-	105 718
Other movements-Prior year adjustments		27 282	(3)
Other cash item		(2 494 244)	-
Net cash flows from investing activities		**(20 778 265)**	**(15 307 713)**
Cash flows from financing activities			
Movement in other liability		(1 187 364)	427 160
Net increase/(decrease) in cash and cash equivalents		**211 752**	**(599 987)**
Cash and cash equivalents at the beginning of the year		(194 179)	405 808
Cash and cash equivalents at the end of the year	7	**17 573**	**(194 179)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	N/A
Buildings	30
Infrastructure	
• Roads and paving	10 - 15
• Pedestrian malls	30
Community	
• Buildings	30
• Recreational facilities	30
• Security - fencing	3
• Halls	30
• Libraries	30

1.2 Property, plant and equipment (continued)

Other assets	
• Buildings	30
• Specialised vehicles	5 - 7
• Other vehicles	5
• Office equipment	5
• Furniture and fittings	5 - 7
• Bins and containers	10
• Specialised plant and equipment	7
• Other items of plant and equipment	5
• Emergency equipment	7
• Computer equipment	3 - 5
Finance lease assets	
• Office equipment	5
• Other assets	5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.3 Heritage assets (continued)

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Accounting Policies

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

1.4 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.4 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Accounting Policies

1.5 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in surplus or deficit for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, municipality accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

If the share based payments vest immediately the services received are recognised in full.

Accounting Policies

1.6 Share based payments (continued)

For share-based payment transactions in which the terms of the arrangement provide either the municipality or the counterparty with the choice of whether the municipality settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded, as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liabili

1.7 Compound instruments

Compulsory convertible preference shares [Compulsory convertible debentures] are compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible instruments and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the municipality, is included in equity.

Combined units are compound instruments, consisting of a debenture (liability) component and a share (equity) component. The debentures are carried at amortised cost, and any premium or discount on issue is written off over the redemption period using the effective interest rate method.

Issue costs are apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

1.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.9 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.9 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 20.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.10 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.11 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.14 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

2. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10 404 853	-	10 404 853	10 404 853	-	10 404 853
Buildings	6 546 774	(1 951 466)	4 595 308	6 546 774	(1 589 252)	4 957 522
Infrastructure	16 739 813	(2 864 993)	13 874 820	16 739 813	(2 607 355)	14 132 458
Community	26 871 475	(2 388 720)	24 482 755	27 128 572	(2 388 720)	24 739 852
Other property, plant and equipment	6 948 430	(3 732 854)	3 215 576	6 948 429	(3 426 522)	3 521 907
Assets under construction	18 023 972	-	18 023 972	-	-	-
Total	**85 535 317**	**(10 938 033)**	**74 597 284**	**67 768 441**	**(10 011 849)**	**57 756 592**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land	10 404 853	-	-	-	10 404 853
Buildings	4 957 522	-	-	(362 214)	4 595 308
Infrastructure	14 132 458	-	-	(257 638)	13 874 820
Community	24 739 852	287 328	-	(544 425)	24 482 755
Other property, plant and equipment	3 521 907	-	2	(306 333)	3 215 576
Assets under construction	-	18 023 972	-	-	18 023 972
	57 756 592	**18 311 300**	**2**	**(1 470 610)**	**74 597 284**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	10 404 853	-	-	10 404 853
Buildings	4 251 009	924 739	(218 226)	4 957 522
Infrastructure	8 030 193	6 661 916	(559 651)	14 132 458
Community	18 609 010	7 114 574	(983 732)	24 739 852
Other assets	3 867 993	501 993	(848 079)	3 521 907
	45 163 058	**15 203 222**	**(2 609 688)**	**57 756 592**

3. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	104 489	-	104 489	104 488	-	104 488

Figures in Rand	2012	2011

3. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Total
Computer software, other	104 488	1	104 489

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Disposals	Total
Computer software, other	-	210 206	(105 718)	104 488

4. Employee benefit obligations

5. Trade and other receivables

	2012	2011
Trade debtors	1 491 783	1 936 820
Other debtors	476 878	476 879
	1 968 661	**2 413 699**

Fair value of trade and other receivables

6. VAT receivable

	2012	2011
VAT	978 058	1 158 068

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Bank balances	17 159	-
Traffic fines account	414	15 726
Bank overdraft	-	(209 905)
	17 573	**(194 179)**
Current assets	17 573	15 726
Current liabilities	-	(209 905)
	17 573	**(194 179)**

8. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2012	2011
MIG grant	(117 506)	1 133 993
MAP - admin capacity	804 149	54 149
Map - salgina crescent	842 680	1 727 363
Minerals and Energy	(134 683)	-
Housing grant	1 819 977	1 819 977
Electrification	34 873	-
	3 249 490	**4 735 482**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Unspent conditional grants (continued)

Movement during the year

Balance at the beginning of the year	4 735 482	4 133 015
Additions during the year	318 081	28 741 856
Income recognition during the year	(1 804 073)	(28 139 389)
	3 249 490	**4 735 482**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

9. Trade and other payables

Trade payables	9 405 802	9 613 481
Retentions	1	3
Leave and bonus accrual	1 298 038	668 581
Other creditors	14 106 652	12 787 868
Salaries control Accounts	1 100 000	-
	25 910 493	**23 069 933**

10. Revenue

Property rates	5 064 819	5 380 607
Refuse removal	218 465	211 048
Rental of facilities & equipment	119 091	89 308
Fines	133 000	123 976
Government grants & subsidies	61 109 682	57 770 384
	66 645 057	**63 575 323**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Refuse removal	218 465	211 048
Rental of facilities & equipment	119 091	89 308
	337 556	**300 356**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates and traffic fines		
Property rates	5 064 819	5 380 607
Fines	133 000	123 976
Grant income		
Government grants & subsidies	61 109 682	57 770 384
	66 307 501	**63 274 967**

11. Service charges

Refuse removal	218 465	211 048

Figures in Rand	2012	2011

12. Government grants and subsidies

Equitable share	37 880 000	31 241 289
MAP - saligna crescent	4 553 256	2 164 471
MFMA	1 415 127	1 724 863
MSIG	745 000	750 000
MIG	16 516 499	13 012 883
Housing grant	(200)	8 876 878
	61 109 682	**57 770 384**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2011: R -), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	1 133 993	51 876
Current-year receipts	14 475 000	12 035 000
Conditions met - transferred to revenue	(15 726 499)	(10 952 883)
	(117 506)	**1 133 993**

Conditions still to be met - remain liabilities (see note 8).

MAP - admin capacity

Balance unspent at beginning of year	54 149	484 854
Current-year receipts	(750 000)	-
Conditions met - transferred to revenue	1 500 000	(430 705)
	804 149	**54 149**

Conditions still to be met - remain liabilities (see note 8).

MAP - saligina crescent

Balance unspent at beginning of year	1 727 363	1 461 129
Current-year receipts	-	2 000 000
Conditions met - transferred to revenue	(884 683)	(1 733 766)
	842 680	**1 727 363**

Conditions still to be met - remain liabilities (see note 8).

Housing grant

Balance unspent at beginning of year	1 819 977	-
Current-year receipts	-	12 756 856
Conditions met - transferred to revenue	-	(10 936 879)
	1 819 977	**1 819 977**

Conditions still to be met - remain liabilities (see note 8).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Government grants and subsidies (continued)

Sport and recreation

Balance unspent at beginning of year	-	524 863
Conditions met - transferred to revenue	-	(524 863)
	-	-

Conditions still to be met - remain liabilities (see note 8).

Provide explanations of conditions still to be met and other relevant information.

Figures in Rand	2012	2011

13. General expenses

Audit committee	38 628	101 713
Advertising	251 258	260 795
Auditors remuneration	1 566 910	1 091 874
Bank charges	108 769	142 064
Cleaning	336 374	175 261
Poverty alleviation	571 061	867 779
Internal audit	774 494	848 961
Professional fees	3 820 970	5 251 929
Stores and material	32 762	24 369
Publicity	107 350	350 226
Mayoral cup	150 620	143 187
Entertainment & receptions	180 334	81 809
Zulu dance	100 440	47 569
Mayoral project	548 735	3 023 971
Purchase of books	15 362	20 217
Insurance	255 687	217 209
Conferences and seminars	181 612	22 700
Street lighting	527 029	613 052
Legal fees	89 227	81 146
Rent - vehicles	612 498	583 740
Rent - copier	267 419	310 462
Traffic Management Fees	635 111	328 947
Medical examinations	6 368	6 491
Sample testing	-	54 588
Fuel and oil	596 484	543 683
Small tools	51 778	1 776
Postal services	15 395	83 012
Printing and stationery	515 901	300 204
Protective clothing	21 363	-
Licenses	4 023	93 369
Refreshments - council	218 083	107 521
Refreshments	123 580	262 162
Levies & membership fees	127 602	30 810
Telephone	893 930	727 196
Training councillors	-	170 614
Training	139 196	44 640
Subsistence and travelling	1 117 768	770 047
Youth skills	27 000	-
Assets expensed	816 141	805 602
Electricity and water services	1 588 523	1 260 574
Sanitation	237 767	482 181
Uniforms and protective clothing	26 528	44 221
Archiving	23 780	15 838
Bursaries	531 978	42 940
Community services	172 500	325 932
Contribution to research	-	400 088
Disaster fund	832 510	257 528
HIV awareness campaign	41 655	65 360
IDP operating projects	190 534	-
LED	141 220	352 600
Grants & donations	165 915	219 316
Contribution to leave provision	(31 912)	-
Sundries	12 393	38 265
KwaNaloga games	352 241	257 077
	20 132 894	**22 352 615**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Employee related costs

Basic	10 634 951	10 284 071
Bonus	589 541	583 420
Medical aid - company contributions	703 909	612 489
SDL	185 977	160 992
Other payroll levies	1 191 209	1 062 985
Relief and overtime payments	733 044	556 757
Night allowances	104 828	33 218
Travel allowance	1 605 192	1 577 938
Housing benefits and allowances	40 240	40 240
Funeral scheme	59 917	21 792
Group life insurance	213 781	268 426
Unemployment insurance	82 673	77 648
Bargaining council	3 604	3 563
	16 148 866	**15 283 539**

Remuneration of municipal manager

Annual Remuneration	676 475	612 149
Car Allowance	289 918	425 824
Contributions to UIF, Medical and Pension Funds	1 497	1 497
	-	**1 039 470**

Remuneration of chief finance officer

Annual Remuneration	574 514	519 883
Car Allowance	143 628	273 283
Contributions to UIF, Medical and Pension Funds	1 497	1 497
	-	**794 663**

Remuneration of corporate services directors

Annual Remuneration	574 514	519 883
Car Allowance	143 628	231 960
Contributions to UIF, Medical and Pension Funds	1 497	1 497
	719 639	**753 340**

Remuneration of technical services directors

Annual Remuneration	574 514	519 883
Car Allowance	143 628	282 174
Contributions to UIF, Medical and Pension Funds	1 497	1 497
	-	**-**

15. Remuneration of councillors

Executive Major	236 341	205 049
Councillors	5 823 970	4 336 325
	6 060 311	**4 541 374**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Investment revenue

Interest revenue		
Bank	416 561	191 601

17. Auditors' remuneration

Fees	1 566 910	1 091 874

18. Cash generated from operations

Surplus	18 727 153	6 138 324
Adjustments for:		
Depreciation and amortisation	1 470 610	2 630 708
Debt impairment	2 038 474	-
Changes in working capital:		
Trade and other receivables	445 038	(475 726)
Consumer debtors	(2 038 474)	-
Trade and other payables	2 840 562	1 872 442
VAT	180 010	1 902 059
Unspent conditional grants	(1 485 992)	2 212 759
	22 177 381	**14 280 566**

19. Commitments

Authorised capital expenditure

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

20. Contingencies

21. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Members of key management	Councillors Section 57 managers

Related party transactions

Remuneration		
Councillors	-	3 478 738

22. Accounting Officer's emoluments

Executive

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

23. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Less: Cash and cash equivalents	7	17 573	(194 179)
Net debt		(17 573)	194 179
Total equity		49 047 773	32 976 724
Total capital		**49 030 200**	**33 170 903**

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

24. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Detailed Income statement

Figures in Rand		2012	2011
Revenue			
Property rates		5 064 819	5 380 607
Service charges	11	218 465	211 048
Rental of facilities and equipment		119 091	89 308
Fines		133 000	123 976
Government grants & subsidies	12	61 109 682	57 770 384
Other income		328 429	541 527
Contributions from provisions		-	19 562
Interest received - investment	16	416 561	191 601
Total Revenue		**67 390 047**	**64 328 013**
Expenditure			
Personnel	14	(16 148 866)	(15 283 539)
Remuneration of councillors	15	(6 060 311)	(4 541 374)
Depreciation and amortisation		(1 470 610)	(2 630 708)
Finance costs		(467 181)	(1 041 809)
Provision for bad debts movement		(2 038 474)	-
Repairs and maintenance		(1 769 061)	(2 117 971)
Contracted services		(545 234)	(627 920)
Grant Expenditure		(30 263)	(9 593 753)
General Expenses	13	(20 132 894)	(22 352 615)
Total Expenditure		**(48 662 894)**	**(58 189 689)**
Surplus for the year		**18 727 153**	**6 138 324**

The supplementary information presented does not form part of the annual financial statements and is unaudited